

Message Text

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ACTION EA-13

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SUBJECT: INDONESIAN LNG

REF: A. STATE 166949; B. TOKYO 10678; C. STATE 170916

SUMMARY. PACIFIC LIGHTING REPS NOW NEGOTIATING WITH PERTAMINA AND MOBIL FOR PURCHASE HALF TOTAL EXPECTED OUTPUT OF LNG FROM MOBIL (NORTH SUMATRA) AND HUFFCO (EAST KALIMANTAN) FIELDS. ALTHOUGH NUMEROUS ISSUES YET TO BE RESOLVED, AGREEMENT ON PRICE, TERMS OF ESCALATION CLAUSE, CURRENCY ADJUSTMENT, AND TIME ALLOWED FOR FPC APPROVAL APPEAR TO BE PRINCIPAL OBSTACLES AT PRESENT. PACIFIC LIGHTING REPS ARE HOPEFUL AGREEMENT CAN BE REACHED BY WEEKEND OF SEPT 1-2 FOR SIGNING NEXT WEEK WHEN GENERAL IBNU RETURNS FROM TOKYO, WHERE HE IS NOW DISCUSSING LNG WITH JAPANESE. END SUMMARY.

1. SIX-MEMBER PACIFIC LIGHTING GROUP ARRIVED AUGUST 23 AT PERTAMINA REQUEST FOR NEGOTIATIONS LNG SALE. DUE ABSENCE TIRTO UTOMO (PERTAMINA LEGAL DEPT, GENERAL IBNU DELEGATED RESPONSIBILITY FOR NEGOTIATIONS TO WIJARSO, GOI DIRECTOR OIL AND GAS. DURING TWO DAYS OF MEETINGS WITH WIJARSO AND SIX-MAN MOBIL DELEGATION (INCLUDING MOBIL'S INDONESIA MANAGER DORI LITTLE

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AND JENNINGS ALLEN), ALL MAJOR ISSUES--INCLUDING QUANTITY OF

LNG, PRICE, ESCALATION CLAUSE, CURRENCY CLAUSE, FPC APPROVAL CLAUSE--WERE AIRED.

2. QUANTITY. WIJARSO INFORMED PACIFIC REPS THAT ONLY 547 MILLION CUBIC FEET PER DAY WOULD BE AVAILABLE FOR SALE TO U.S. WIJARSO EXPLAINED THAT BASED ON CURRENT RESERVE ESTIMATES, MOBIL NORTH SUMATRA PLANT WOULD PROCESS APPROXIMATELY ONE BILLION STANDARD CUBIC FEET PER DAY AND HAVE NET OUTPUT OF ABOUT 730 MILLION STANDARD CUBIC FEET PER DAY OR ABOUT 5.7 MILLION METRIC TONS PER YEAR. GIVEN EXPECTED OUTPUT OF HUFFCO EAST KALIMANTAN FIELD (ABOUT HALF THAT OF NORTH SUMATRA) AND PRINCIPLE THAT LNG WILL BE EVENLY SPLIT BETWEEN U.S. AND JAPANESE MARKETS, THREE FOURTHS OF MOBIL FIELD OUTPUT (547 MILLION STANDARD CUBIC FEET PER DAY) WAS ALL THAT WOULD BE AVAILABLE TO PACIFIC. ALTHOUGH PACIFIC WOULD PREFER LARGER QUANTITY, PACIFIC REP SAID SMALLER AMOUNT, REQUIRING SEVEN 130,000 CUBIC METER CARRIERS, WOULD BE ACCEPTABLE IF PERTAMINA/MOBIL WILLING TO GRANT PACIFIC ADDITIONAL AMOUNT IF FINAL NATURAL GAS RESERVES FIGURE IS LARGER. (FYI. PERTAMINA/MOBIL AGREED TO PROVIDE PACIFIC LOS ANGELES OFFICE WITH COPY OF MCNAUGHTON SURVEY REPORT. END FYI.)

3. PRICE. DISCUSSIONS TO DATE INDICATE SALES PRICE IS PRINCIPAL OBSTACLE TO AGREEMENT. WIJARSO AND TIRTO UTOMO, WHO ASSUMED RESPONSIBILITY FOR NEGOTIATIONS AUGUST 27, APPEARED ADAMANT THAT 63 CENTS FOB PER MCF WAS MINIMUM ACCEPTABLE PRICE TO PERTAMINA AND GOI, POINTING OUT JAPANESE WERE PREPARED TO PAY MORE. PACIFIC, WHICH OPENED DISCUSSIONS AT 58 CENTS PER MCF, HAS INDICATED WILLINGNESS TO IMPROVE OFFER TO 63 CENTS IF NECESSARY PROVIDED OTHER PROVISIONS ARE MUTUALLY SATISFACTORY AND CONTRACT CAN BE SIGNED WITHIN ONE WEEK.

4. ESCALATION AND CURRENCY ADJUSTMENT CLAUSES. DISCUSSION THESE TWO CLAUSES CONTINUE TO REPRESENT VIRGIN TERRITORY FOR PACIFIC AND PERTAMINA. PACIFIC HAS OFFERED 1.5 PER CENT ANNUAL PRICE ESCALATION WHILE PERTAMINA DESIRES TWO PER CENT. CURRENCY ADJUSTMENT CLAUSE, PROPOSED BY GENERAL IBNU TO PROTECT INDONESIAN PURCHASING POWER, IS SOMEWHAT MORE COMPLEX BUT PACIFIC INDICATES AGREEMENT SHOULD NOT BE TOO DIFFICULT.

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TM FPC APPROVAL CLAUSE. CONTRACT WILL CONTAIN CLAUSE PLACING LIMIT ON TIME PACIFIC GRANTED TO SECURE FPC APPROVAL. IF APPROVAL NOT RECEIVED WITHIN PERIOD SPECIFIED, CONTRACT WILL BE SUBJECT TO RE-NEGOTIATION. PACIFIC HAS REQUESTED A MINIMUM OF TWENTY-FOUR MONTHS FROM DATE OF CONTRACT WHILE PERTAMINA/MOBIL PRESSING FOR SIXTEEN MONTHS. (FYI. PACIFIC REP SAID THAT IF CONTRACT SIGNED WITHIN ONE WEEK, APPLICATION FOR FPC APPROVAL COULD NOT BE SUBMITTED UNTIL FEBRUARY 1, 1974, AND APPROVAL COULD TAKE US MUCH AS TWO

YEARS GIVEN PRESENT FPC PROCEDURES. END FYI.)

6. ATMOSPHERICS. PACIFIC LIGHTING REPS HAVE BEEN CRITICAL OF MOBIL'S ROLE IN NEGOTIATIONS SPECULATING THAT MOBIL WANTS HIGHER PRICE WHICH APPARENTLY WOULD BE AVAILABLE, AND POSSIBLY OTHER CORPORATE INTERESTS SERVED, SELLING ALL LNG TO JAPAN. ON AUGUST 26 GENERAL IBNU AND WIJARSO LEFT FOR ONE WEEK TRIP TO HONG KONG AND TOKYO, PRESUMABLY AS FOLLOW-UP TO NEGOTIATIONS LAST WEEK BETWEEN PERTAMINA REPS SOEDARNO AND UTOMO ON LNG SALE TO JAPANESE. GENERAL IBNU AND WIJARSO ARE EXPECTED TO RETURN SEPTEMBER 2. IBNU WILL REMAIN IN INDONESIA UNTIL SEPTEMBER 7 WHEN HE WILL LEAVE FOR THREE-WEEK AROUND-THE-WORLD TRIP INCLUDING VISITS TO U.S. AND EUROPE. (HE WILL BE IN GENEVA SEPTEMBER 22 FOR ANNUAL CELEBRATION OF PERTAMINA'S EUROPEAN OFFICE.)

7. COMMENT. TODD OF PACIFIC LIGHTING SEEMED SOMEWHAT DISAPPOINTED HE WAS NOT SEEING MORE OF GENERAL IBNU AND THAT NEGOTIATIONS INITIALLY GIVEN OVER TO WIJARSO. HE THOUGHT THIS MIGHT BE DUE TO GENERAL IBNU'S ORIGINAL ORAL STATEMENT TO HIM THAT PACIFIC LIGHTING COULD TAKE ONE BILLION CUBIC FEET LNG FROM MOBIL FIELD. NEVERTHELESS, NEGOTIATIONS FOR SALE OF HALF TOTAL PRESENTLY EXPECTED INDONESIAN OUTPUT TO U.S. APPEAR ON TRACK ALTHOUGH SEVERAL STICKY ISSUES REMAIN UNRESOLVED, WITH PRICE APPARENTLY UPPERMOST IN IBNU'S MIND. DURING RECENT CONVERSATIONS WITH AMBASSADOR AND EMBOFF GENERAL IBNU REITERATED IT WAS GOI POLICY TO SELL LNG TO U.S., BUT HE TOLD EMBOFF QUOTE WE HAVE TO HAVE A BETTER PRICE, ESPECIALLY SINCE THE PRICE OF OIL IS GOING CRAZY UNQUOTE. GIVEN RECENT DEVELOPMENT AND NEGOTIATIONS NOW TAKING PLACE SIMULTANEOUSLY IN TOKYO AND JAKARTA, IT IS LIKELY THAT NEXT CHAPTER OF INDONESIAN LNG DRAMA WILL BE WRITTEN IN NEXT FEW DAYS. DEPARTMENT MAY WISH PASS SUBSTANCE THIS TELEGRAM TO EXIM BANK.
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